Small Business Spotlight 2014

From the Annual HireRight Employment Screening Benchmarking Survey

2014 Edition

HireRight®

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Survey Overview and Methodology

Small businesses are increasingly adopting employee screening as part of the hiring process in an effort to reduce risks and improve workforce quality. The United States Department of Labor estimates that the cost of a bad hire can exceed 30% of the employee's annual salary, so a bad hire earning $50,000 annually could cost an employer over $15,000. This is potentially a large amount for a growing business, particularly when it's in addition to non-monetary costs like low morale, interruptions to workflow and brand reputation.

For seven years, as part of its Annual Employment Screening Benchmarking Report, HireRight has collected and published data about employer screening practices, including background checks, drug and alcohol testing and employment eligibility verification (Form I-9). Survey respondents provide insight into a wide array of topics and reveal trends, issues and policies affecting employment screening. The 2014 report, conducted in late 2013, is based on survey results from more than 3,000 respondents, representing employers of all sizes, across a broad range of industries and locations.

This Small Business Spotlight focuses on 593 respondents with workforces of fewer than 100 employees, and uncovers background screening methods and practices used by this business segment. Figures may exceed 100% or may not equal exactly 100% due to rounding, or the option to select multiple answers. Responses from regulated transportation industries have also been removed.

Respondent Profile

Our small business survey included respondents in various positions who are involved with hiring and staffing decisions. Directors, managers and supervisors comprised 45% of the population, followed by specialists, recruiters and administrators at 24%. Business owners or executives comprised 19% of responses.

Responses were collected from a broad range of organization types, including health care, financial services, education, manufacturing and general services which were among the largest number of participants.

Respondent Role

12%

19%

45%

24%

- Director, manager or supervisor
- Specialist, recruiter, administrator etc.
- Owner or executive
- Other
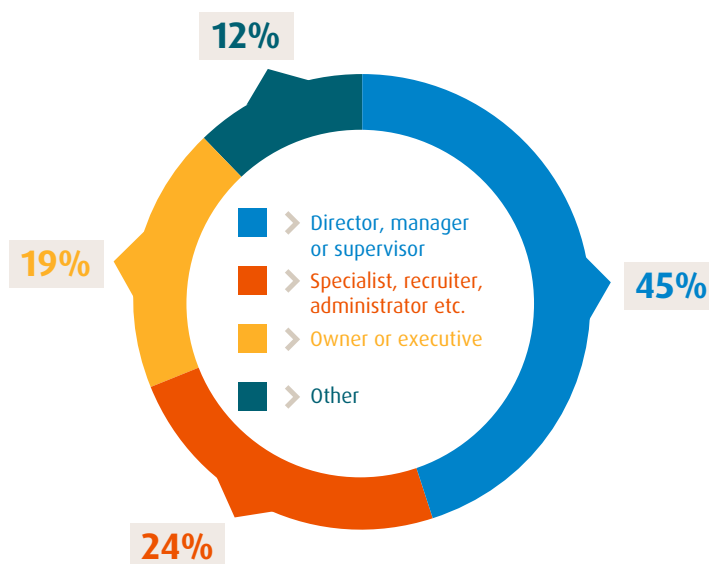
Top Benefits of Background Screening

Improved Quality of Hires

More than half of respondents (53%) indicated that a top benefit of screening was better quality of hires. Smaller companies compete with businesses of all sizes for the highest quality talent, and hiring employees with the best skill sets is especially critical for several reasons. In smaller organizations, individual employees can have a big effect on customer satisfaction. Many clients rely on small organizations to deliver responsive and specialized service, and individual contributors can have a significant impact on the bottom line. Even a single "bad hire" can stunt future growth.

Top Benefits of Screening

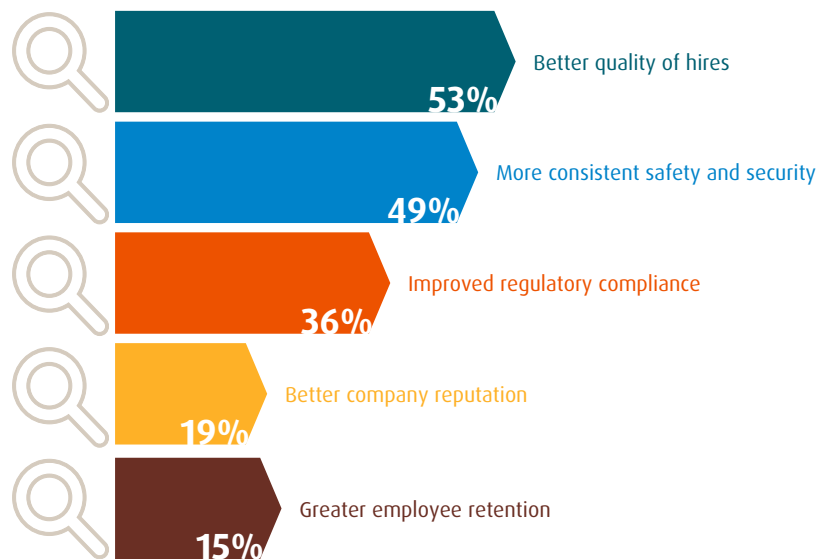| Benefit	Percentage
Better quality of hires	53%
More consistent safety and security	49%
Improved regulatory compliance	36%
Better company reputation	19%
Greater employee retention	15%

Better Regulatory Compliance

Thirty-six percent of respondents believed screening helped improve regulatory compliance. Organizations of all sizes are subject to regulations from various federal and state entities regarding the use of information like credit reports, criminal background checks and drug testing. In this complex environment where regulations are constantly being created, modified and clarified, even small organizations need advice from qualified legal resources.

## Safe and Secure Work Environment

Less than half of respondents (49%) reported that more consistent safety and security was a top benefit of screening. Workplace violence can cause serious damage to organizations and employers have an obligation to take reasonable steps to avoid negligent hiring practices and maintain a safe environment for workers.

When asked if screening had uncovered issues that would have not been found otherwise, 54% of respondents said it had. Almost two thirds (64%) of respondents said that screening uncovered applicants who lied or misrepresented information on their application. Both findings support the effectiveness of screening in improving the overall quality of the workforce, and in increasing safety and security for both employees and customers.
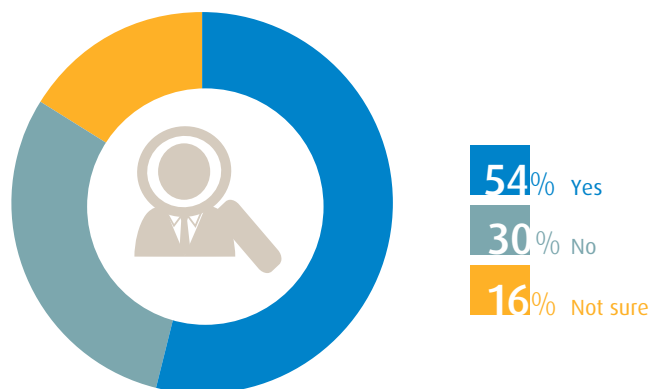
Screening has Exposed a Person Who Lied on a Resume or Application

64% Yes
36% No
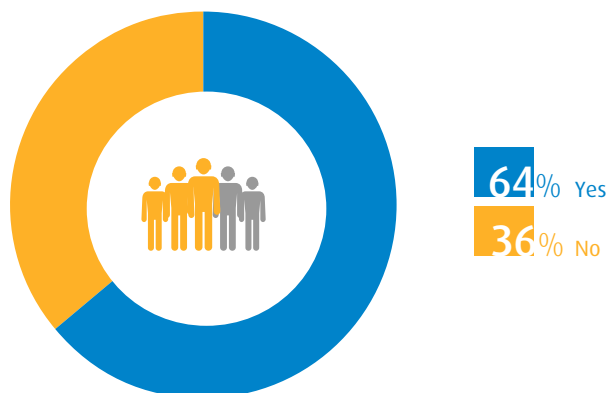
Screening Uncovers Issues that Would Not Have Been Found Otherwise

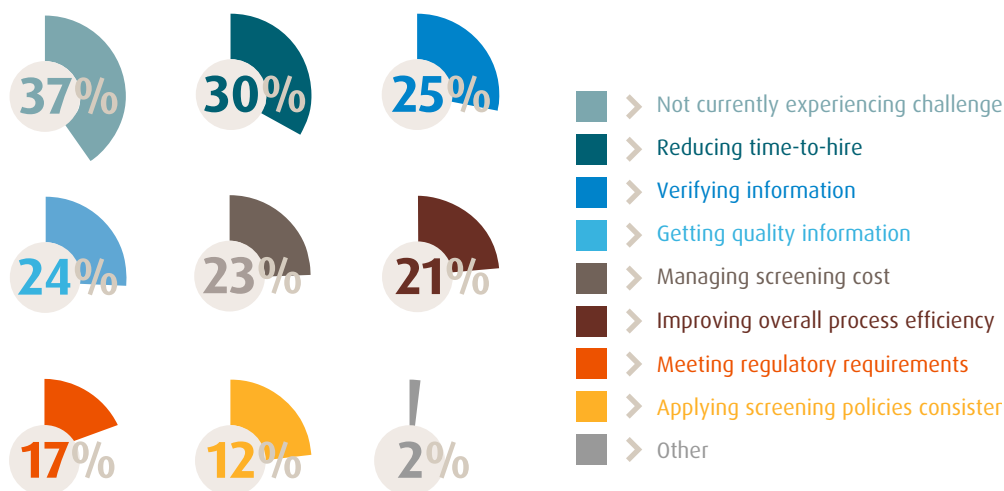**54**% Yes
30% No
16% Not sure

Addressing Background Screening Challenges

Improving Efficiency and Reducing Time to Hire

Reducing time to hire (30%) and improving efficiency in the hiring process (21%) have consistently been among the top screening challenges cited by small businesses in recent years. These challenges can be addressed hand-in-hand by implementing the right policies and using the right technology.

Top Screening Challenges

37%
30%
25%
24%
23%
21%
17%
12%
2%

> Not currently experiencing challenge
> Reducing time-to-hire
> Verifying information
> Getting quality information
> Managing screening cost
> Improving overall process efficiency
> Meeting regulatory requirements
> Applying screening policies consister
> Other

The first step in an efficient hiring process is documentation. Organizations should have a standard operations procedure that is written and followed. Many organizations create a flowchart and checklist of the hiring process from both a candidate and manager's perspective. This helps ensure important steps are completed in a timely fashion, and that the right screening is conducted according to job type. Using a standard set of procedures has multiple benefits including improved efficiency, consistency and even reducing time to hire.

As businesses grow, and hiring accelerates, it may be time to consider using a talent management solution that integrates background screening information within that solution. Our survey also shows that less than 8% of small organizations use an applicant tracking and/or talent management system. Combining systems may significantly improve the time to hire by keeping all information regarding job postings, applicants, processing and screening in one central location, accessible by all necessary parties. There are solutions designed specifically for small businesses at an affordable price point including vendors like Taleo, Jobvite and myStaffingPro.

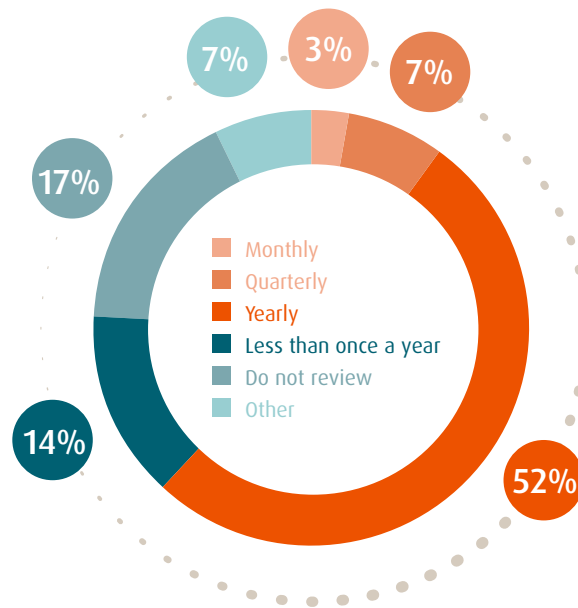## Verifying Information and Getting Quality Information

Since new employees could have access to an organization's assets, client and sales lists, as well as contacts and other employees, a sound practice is for the organization to conduct thorough background checks to help protect intellectual property and maintain a safe workplace. Verifying information (25%) and getting quality information (24%) were cited as significant challenges in background screening. Relying on a third-party screening provider can help organizations free-up resources that would have been used to conduct screening on their own, while providing superior information they may not have been able to access otherwise. Through transactional on-demand services, third-party screening is now accessible to even the smallest businesses. In addition, some third-party providers have reporting capabilities which are detailed and scalable, enabling a small organization to benefit from the same breadth of information that larger companies receive.
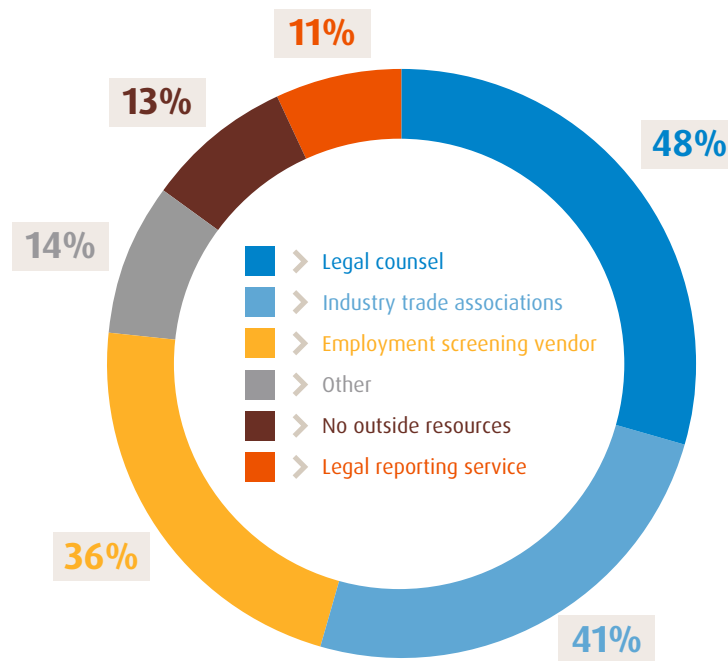
Meeting Regulatory Requirements

A regular review of hiring policies and procedures to incorporate changing laws and regulations is an integral part of an effective hiring process. Over one-half of respondents (52%) review policies annually, while 17% report that these procedures are never reviewed.

Nearly one-half of respondents (48%) keep abreast of regulatory changes by using legal counsel, which is markedly lower than respondents in organizations with more than 100 employees where 62% use legal counsel. With frequent changes to regulations and legislation difficult to monitor, a lack of reliance on legal counsel is a practice that could prove to be costly in the event of litigation or fines for non-compliance.

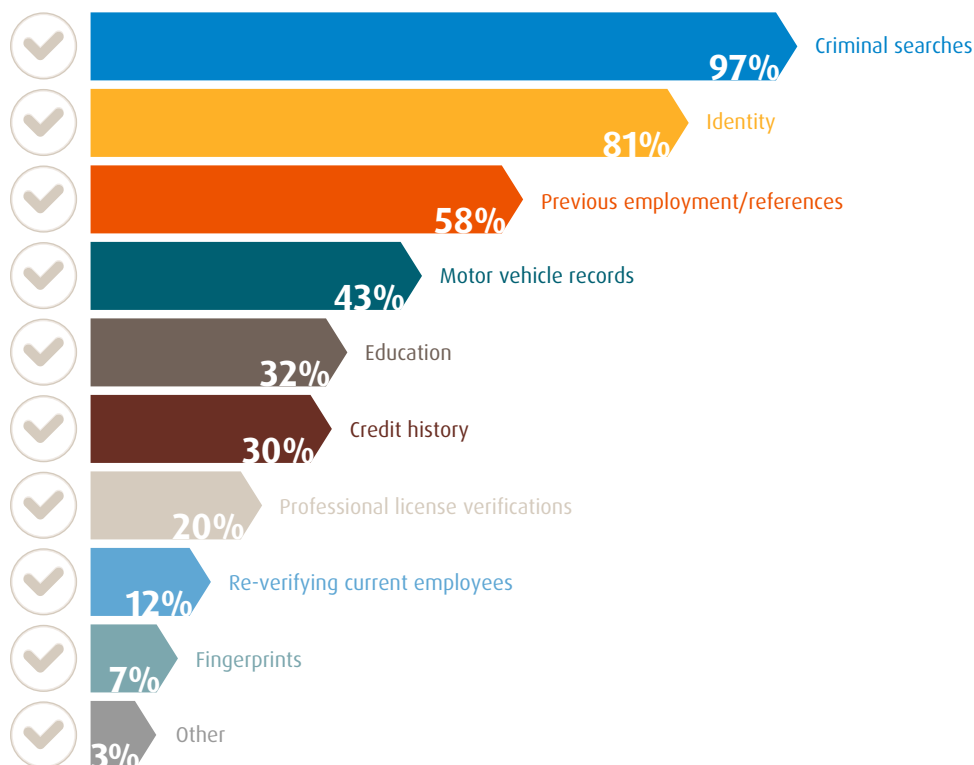## Frequency of Performing Comprehensive Reviews of Policies and Procedures

- Monthly
- Quarterly
- Yearly
- Less than once a year
- Do not review
- Other

7% 3% 7%
17%
14%
52%

Resources Used to Stay Current with Regulatory Changes

11%
13%
14%
48%
36%
41%

- › Legal counsel
- › Industry trade associations
- › Employment screening vendor
- › Other
- › No outside resources
- › Legal reporting service

How Small Businesses Screen

When screening a job candidate, respondents reported that criminal searches (97%) and identity verification (81%) were the most common checks. More than one-half (58%) verified previous employment history, and 43% reported checking an applicant's motor vehicle records.

Types of Background Checks Performed

Check	Percentage
Criminal searches	97%
Identity	81%
Previous employment/references	58%
Motor vehicle records	43%
Education	32%
Credit history	30%
Professional license verifications	20%
Re-verifying current employees	12%
Fingerprints	7%
Other	3%

Small organizations can benefit from best practices often used by mid-size and large organizations to ensure quality and commonality in hiring practices:

» Create a core list of background checks to use on all new hires
» Add additional checks based on specific job duties of a new employee
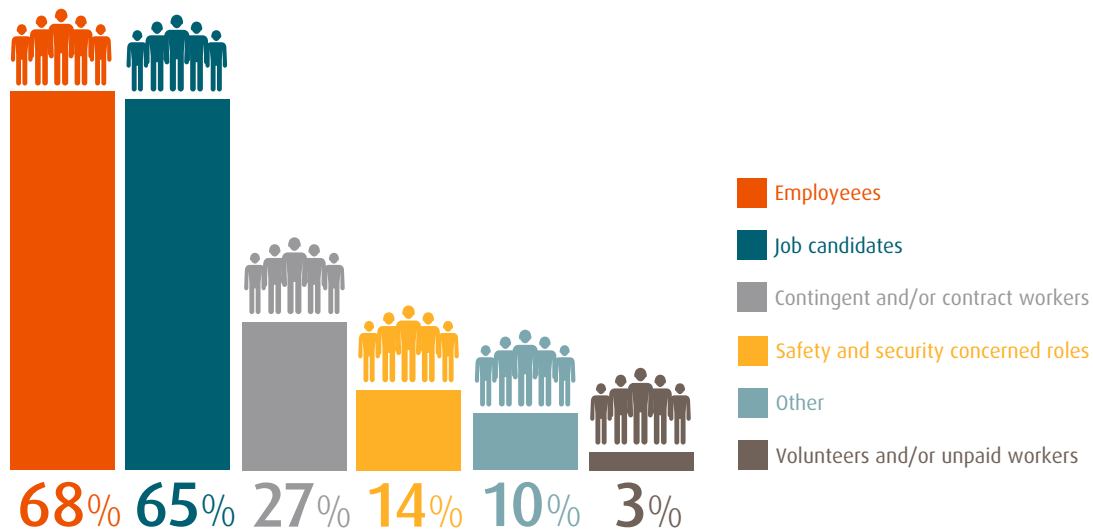» Document and implement policies and procedures

For example, subject to state laws, a core set of screening could include criminal background checks, I-9 verification and verification of previous employment and education. Credit reports and more in-depth criminal background checks could be added for new employees with access to financial information. Conducting a core set background screening which is then modified by job responsibilities is not only cost effective, but could reduce the risk of hiring discrimination, since all applicants would receive similar background checks.

Drug Testing

About two-thirds of respondents in small organizations (68%) perform drug and/or alcohol testing on all employees, and 65% test job candidates. Just over one-quarter of contingent and temporary employees (27%) also undergo drug and alcohol screening either pre- or post-hire.

Drug Testing by Worker Type

68% **65%** **27%** **14%** **10%** **3%**

- Employeees
- Job candidates
- Contingent and/or contract workers
- Safety and security concerned roles
- Other
- Volunteers and/or unpaid workers

While several methods of testing are available, the most common method is urinalysis (92%), followed by breath alcohol testing (25%).

Some states have regulations or guidance which may govern workplace testing, and it is a best practice to review a drug-testing process with legal counsel to ensure compliance.

Using an electronic chain of custody (eCOC) is a process which electronically captures both drug screening forms and authorization signatures. The candidate's progress status and results are available via the Internet which is much faster than traditional methods using paper forms. This is an efficient process that reduces administrative time and costs. Many drug testing labs offer this service. Almost half of respondents (47%) indicated they are using this process, but 43% said they had no plans to implement eCOC.

Drug and Alcohol Tests Performed

7% **7%** **6%**

25%

92%

- Urine
- Breath alcohol test (BAT)
- Blood
- Saliva
- Hair
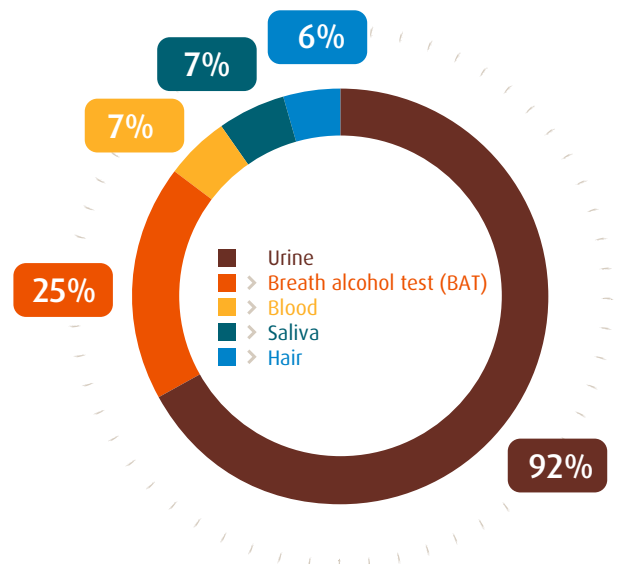
The use of medical marijuana and legalization of its use is changing. Currently, 10 states and the District of Columbia allow the use of marijuana for medical or recreational use. Currently, only 15% of small organizations have a medical marijuana policy, which is an increase from last year (9%). Over three–quarters of respondents (76%) have no plans to implement a policy, and 9% plan to implement a policy in the future.
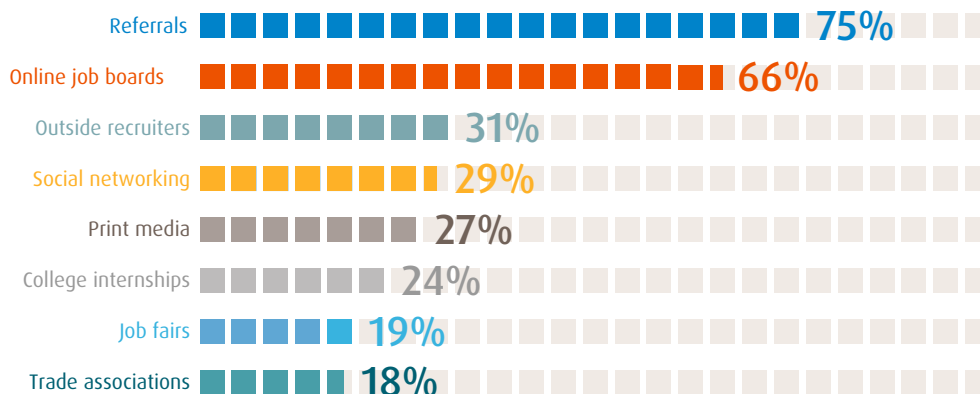
Have a Medical Marijuana Policy

76% No

15% Yes

9% No, but plan to
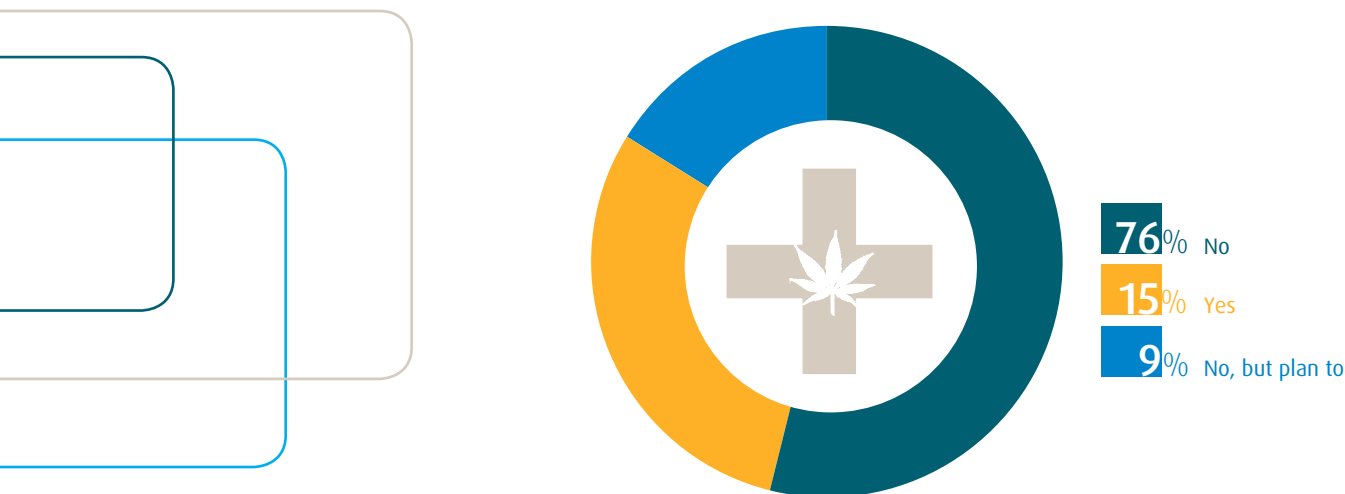
Using Social Media in Recruiting

In a recent survey by Robert Half, 60% of small businesses cited that finding skilled workers was their biggest hiring challenge[1]. For respondents in small businesses, referrals continue to be the most used method (75%) of recruiting, closely followed by posting opportunities to on–line job boards (66%).

Top Recruiting Methods

Referrals **75%**

Online job boards **66%**

Outside recruiters **31%**

Social networking **29%**

Print media **27%**

College internships **24%**

Job fairs **19%**

Trade associations **18%**

[1] http://rht.mediaroom.com/2013-08-06-SMALL-BUSINESSES-BIG-RECRUITING-CHALLENGES-Survey-Finding-Capable-Employees-Is-Greatest-Management-Hurdle-for-Small-Businesses

Social media for recruiting was used significantly less by respondents in small businesses (29%) than those in larger organizations (50%). With a typical job board listing costing several hundred dollars, social media recruiting may be a cost effective alternative that produces good results. Better utilizing social media, such as LinkedIn, with a referral program could help small organizations find better candidates and stand out among peers.

Note that while using social media is an effective way to recruit job candidates, it is NOT a good way to screen prospective employees. Information gained on some sites could lead to hiring decisions that are biased or discriminatory and could lead to lawsuits. Two-thirds (67%) of small business respondents indicated they do not use social media in their screening process. Those utilizing this method may want to revise their policies.

Social Media Sites Used for Screening

| None | 67% |
LinkedIn	19%
facebook	16%
Not sure	6%
Other	6%
Google+	5%
twitter	3%
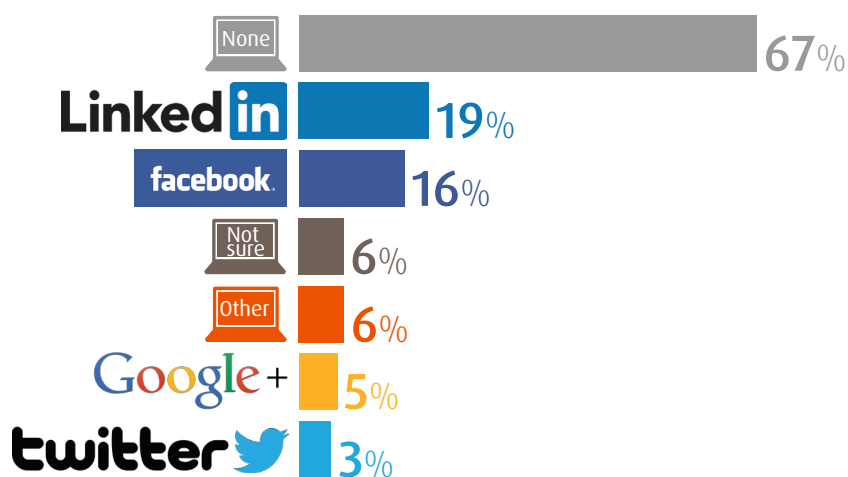
Verifying Employment Eligibility (Form I-9)

Employers are prohibited under the federal Immigration Reform and Control Act (IRCA) of 1986 from hiring unauthorized immigrants, and employers must verify new hires' identities and eligibility to work, on Form I-9, Employment Eligibility Verification. Forty-four percent of survey respondents indicated they process and store at least some of their I-9 forms electronically. Going hand-in-hand with digital I-9 processes, just under one-half (46%) of respondents used E-Verify voluntarily, and 21% are using it when required by law.
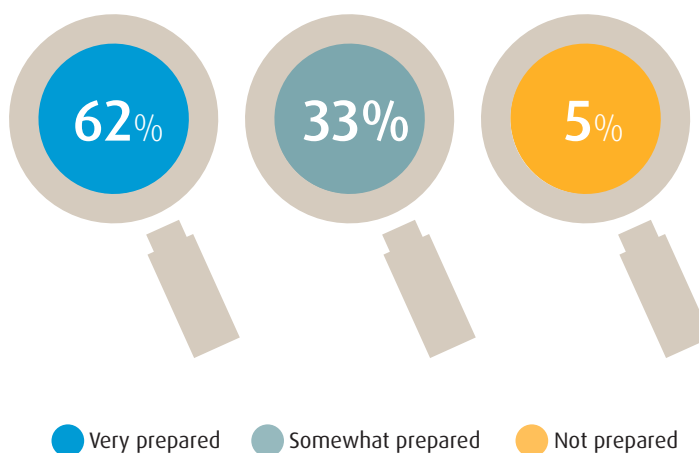
When asked how prepared their organizations were for a U.S. Immigration and Customs Enforcement (ICE) inspection, 95% of respondents were either very prepared or somewhat prepared, and 5% said they were not prepared. At the same time, over 85% of respondents reported they had never been through an ICE audit, and it is likely that many organizations don't understand the complexity of the audit and that they could face fines in the event of an audit.

Using E-Verify and digital I-9 processes and storage is a recommended best practice to help ensure information is complete and compliant, and that an organization is prepared for audits.

I-9 Form Process and Storage

Paper only	53%
Paper and electronic	36%
Electronic Only	8%
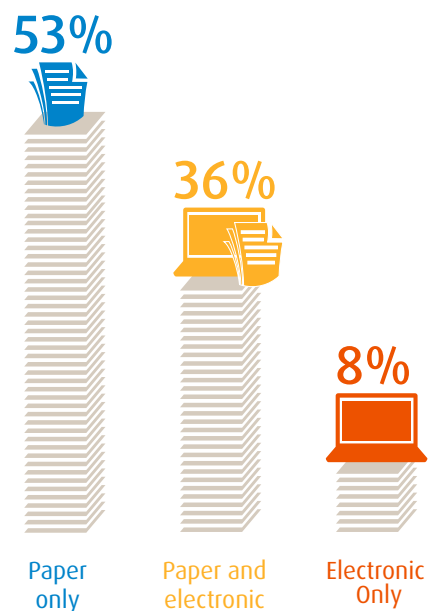
Preparedness for an ICE Inspection

62% — Very prepared
33% — Somewhat prepared
5% — Not prepared

2014 Outlook
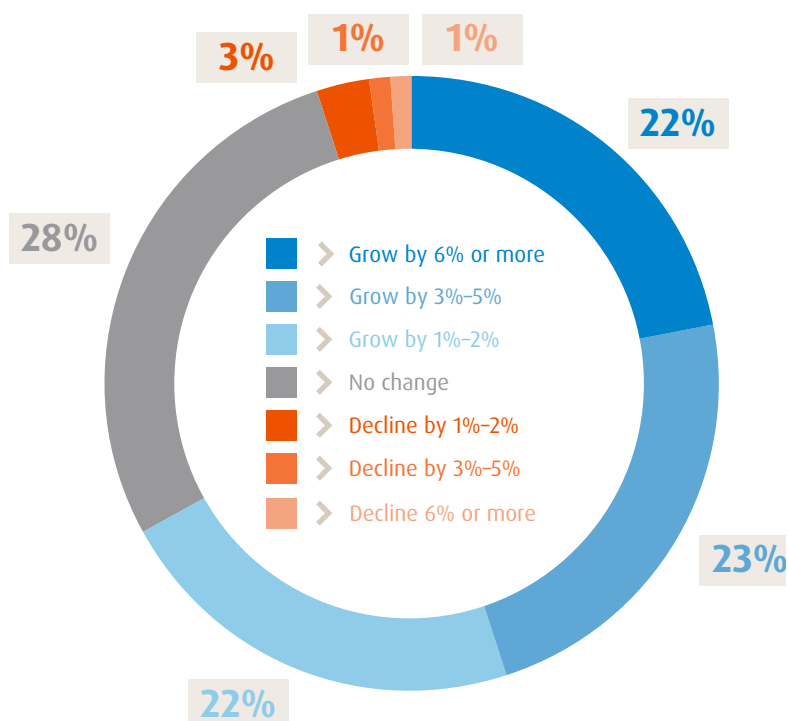
Increase in Hiring

Small business is optimistic about hiring prospects in 2014. When asked if the size of their workforce would change in 2014, two-thirds of respondents (67%) expected an increase of 1% or more. Twenty-two percent expected an increase of 6% or greater. More than one-quarter (28%) expected no change and only 5% expected their workforces to decrease.

New employee hires are expected to comprise 60% or more of the workforce increase, with only 11% of the growth coming from non-employees such as contingent or contract workers.

Hiring Policies that Organizations Plan to Improve in 2014

When respondents were asked whether they planned hiring policy changes in 2014, one-half (50%) indicated they did not. While this indicates satisfaction with the status quo, there are several areas where changes could be beneficial to organizations:

Size of Expected Workforce Change in 2014

3% **1%** **1%**
22%
28%
23%
22%

- Grow by 6% or more
- Grow by 3%–5%
- Grow by 1%–2%
- No change
- Decline by 1%–2%
- Decline by 3%–5%
- Decline 6% or more

Improving the Candidate Experience

One-fifth of respondents (20%) planned to improve the candidate experience, which is the way the candidate goes through hiring and onboarding. A positive candidate experience can help tip the scales in getting high quality candidates to commit to an organization in a competitive market.

Organizations should consider the following practices to improve the candidate experience:

» Communicate with candidates through the entire process by providing status updates and timelines.

» Disclose required background checks upfront to help weed out undesirable candidates.

» Describe the background screening process to ease candidates' anxiety and enable them to gather documentation.
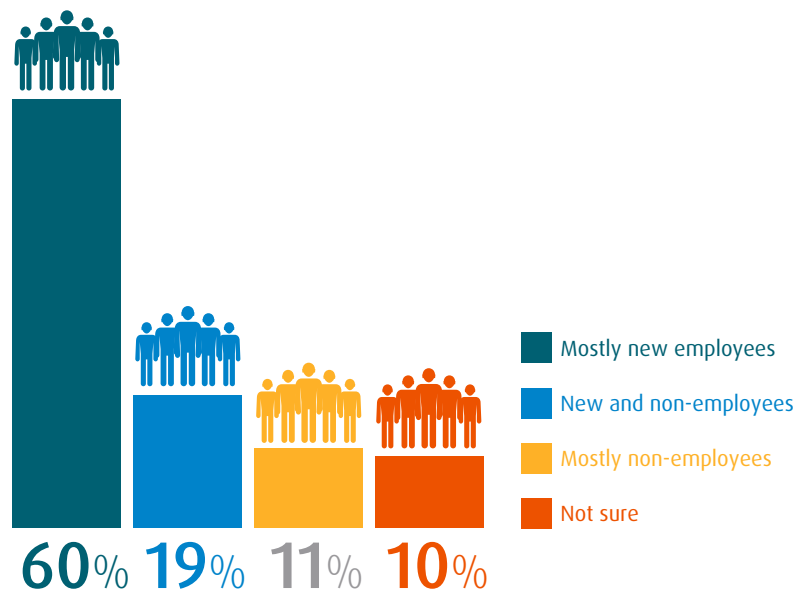
Verifying Education and Past Employment

Eighteen percent of respondents plan to improve verification of employment and education. Verifying past experience and education is an important component of background screening. In small organizations, an individual employee is often the primary means of building brand reputation, so ensuring that employees have required credentials and experience are important qualifiers.
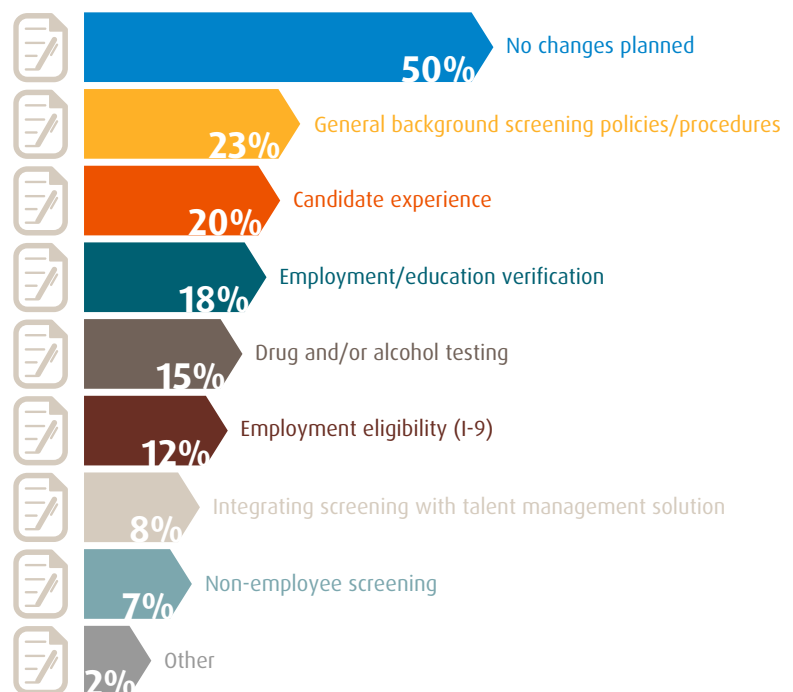
Creating a Safe Environment

Maintaining a safe and productive environment for both workers and customers is a top priority of organizations, and drug/alcohol testing is one step to ensure that the work place is secure. Improving drug and alcohol testing policies is planned by 15% of respondents.

Expected Growth by Employee Type

- Mostly new employees
- New and non-employees
- Mostly non-employees
- Not sure

60% **19**% **11**% **10**%

Policies and Procedures to Improve in 2014

50% No changes planned

23% General background screening policies/procedures

20% Candidate experience

18% Employment/education verification

15% Drug and/or alcohol testing

12% Employment eligibility (I-9)

8% Integrating screening with talent management solution

7% Non-employee screening

2% Other

Conclusion

Overall, the 2014 HireRight Employment Background Screening Benchmarking survey shows that small businesses are doing a good job of screening candidates to avoid risk, particularly in conducting criminal checks and identity verifications. Going forward, small businesses should consider consulting legal resources to stay abreast of regulatory changes. To better compete for top candidates, small businesses should better utilize social media for recruiting and referrals, and implement communications that will improve candidates' hiring and onboarding experience. Lastly, as small businesses grow, they should look towards technology to help streamline and manage their hiring processes – for instance, integrating screening with a talent management and/or applicant tracking system and utilize E-Verify and electronic I-9 processing and storage.

About HireRight

HireRight is a leading provider of on-demand background screening, drug and health screening, and employment eligibility verification solutions that help employers automate, manage and control screening programs. Many companies, including more than 25 percent of the Fortune 500, trust HireRight because the company delivers customer-focused solutions that provide greater efficiency and faster results. HireRight worldwide headquarters are located in Irvine, California, with offices and affiliates around the globe.

HireRight®

Intelligence to move forward.[SM]
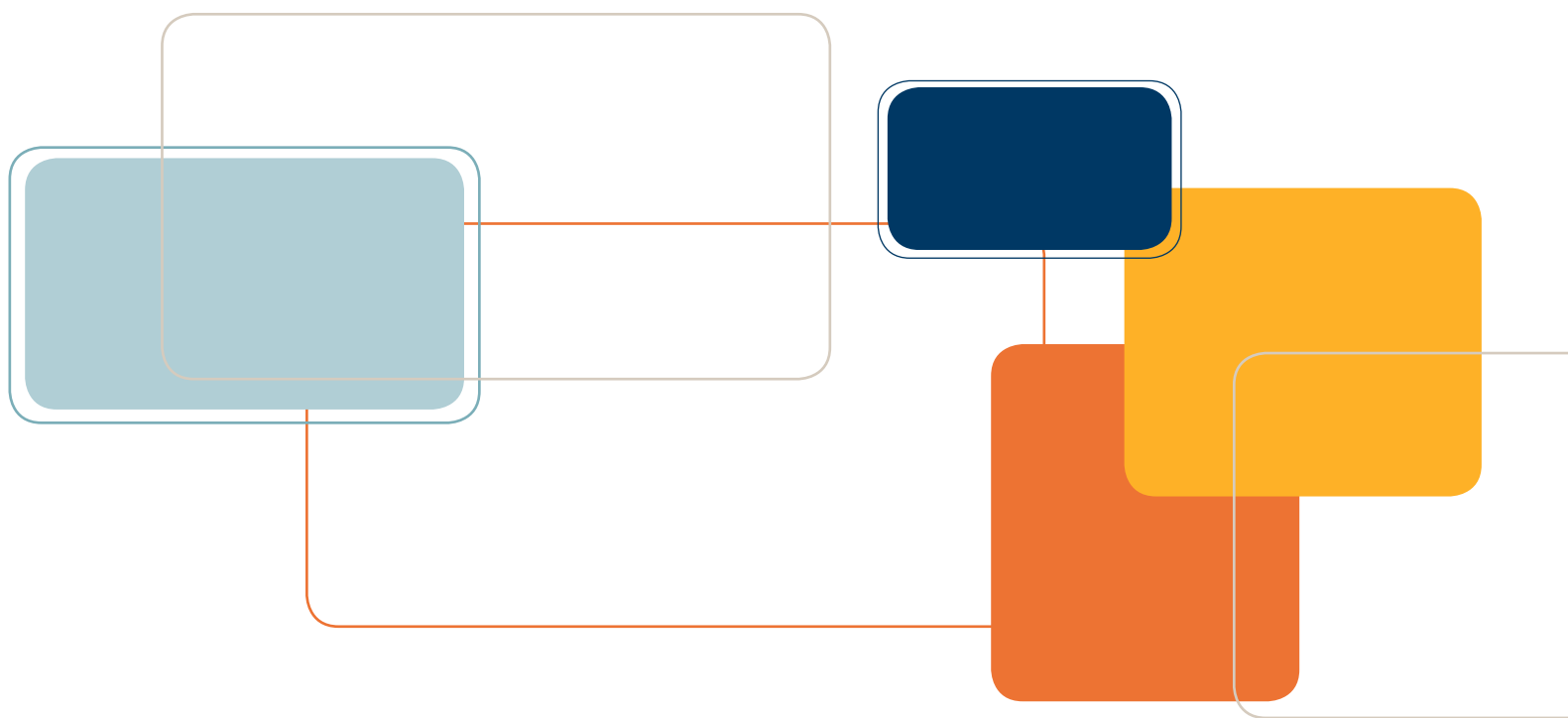
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